




THE CITY OF SAN DIEGO

MEMORANDUM

DATE: January 12, 2010

TO: Honorable Council President and City Council Members

FROM: Jay M. Goldstone, Chief Operating Officer 

SUBJECT: DROP Cost Neutrality Study

This past fall, at the City Council's request, I began the process of conducting a Cost Neutrality Study for the City's DROP Program. The study contained two components; one relating to the direct costs or savings the City realizes in its salary and benefits once an employee enters drop and the other to the impact the DROP program has on employees' retirement behavior and thus the impact on the City's Actuarial Accrued Liability and ultimately the City's Annual Required Contribution (ARC).

City staff has completed the first part of the study; however, the City required the services of an actuary to complete the second component. Initially, a request was made of SDCERS' to do this analysis since they had all of the necessary data but they declined. As a result, I engaged the services of an independent actuary.

Over the subsequent months, this actuary worked with SDCERS to obtain records and other necessary information and was proceeding on a schedule to complete the work by early to mid-December 2009. By late November 2009, it became more and more apparent that the work would not be completed on time but the actuary was committing to provide the City with a finished product by the end of December. There were several "final" pieces of information he needed from SDCERS in order to finish his work.

Checking back with him at least twice a week and with SDCERS equally as often, he always had an excuse why he hadn't contacted SDCERS for this information. Every time he promised he would contact SDCERS "by the end of the day". Of course the days came and went and still nothing. As a result, I have terminated the work of this actuary and to date the City has not paid anything to him. It is my intention not to reimburse him for any of his time or expenses since the City never received any work product and he did not fulfill his obligations to the City.

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Concurrent with this project, the City issued an RFP to retain the services of an actuary to replace the contract the City previously had with Joe Esuchanko. This process has been completed and staff is working on the contract terms and 1472 and will be bringing this forward to the City Council for approval sometime over the next several weeks. While virtually having to start over, it is my intention to assign the cost neutrality study to this firm as its first and foremost assignment. I suspect that the firm will require two to three months to complete its work, but once I have a timeline I will provide it to the City Council.

cc: Honorable Mayor Jerry Sanders
Honorable City Attorney Jan Goldsmith
Mary Lewis, Chief Financial Officer
Andrea Tevlin, Independent Budget Analyst
